

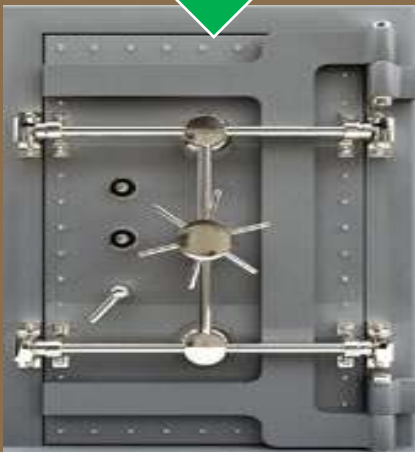
# Arizona Economic Update

*Office of the Arizona State Treasurer Dean Martin*



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**All state funds must be**  
**deposited at**  
**Treasurer's Office**

**FY 08 total was:**

**\$39.10 Billion**



# Daily Revenue



## State Spending

## Invested



# *Inside the Trading Room* *A Day In the Life...*



- **Last Business Day 2006 \$2.3 Billion in cash**
- **Example of one trade of over 300 trades executed**
  - Out to bid for overnight repo (loan collateralized by US Treasuries)
  - 12/29/06 to mature on 1/2/07
  - The bid winner sent us \$2.346 Billion in US Treasuries
  - 1/2/07 received \$2.3 Billion back
  - **We were paid \$1.3 million in interest!**



# Our Investment Philosophy

**SAFETY**  
before  
**LIQUIDITY**  
before  
**YIELD**





# S & P Rating of Pool 5

## AAAf / S1

We Continue  
To Maintain  
The Highest  
Rating From  
S & P



S1

S2

S3

S4

S5

S6

AAAf

AA+f

AAf

AA-f

A+f

Af

A-f

BBB+f

BBBf

BBB-f

BB+f

BBf

BB-f

B+f

Bf

B-f

CCC+f

CCCf



# *Treasurer's FY 08 Performance*

Operating Revenue to the State of Arizona  
State Agencies, Endowment and LGIP Clients

Earnings Distributed (profits):

**2007: \$539,921,966**

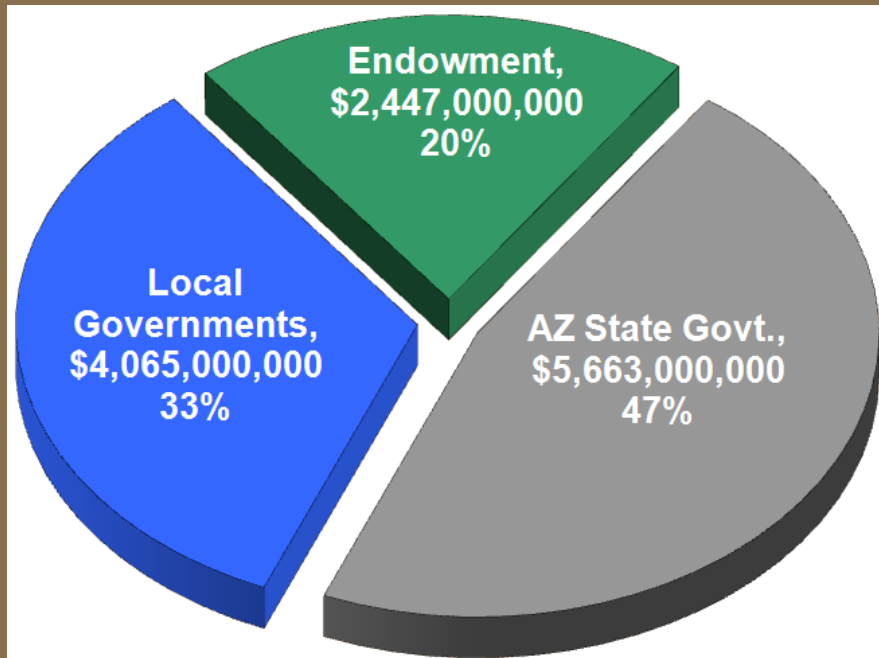
**2008: \$350,056,194**

**\$890 million in profits!**

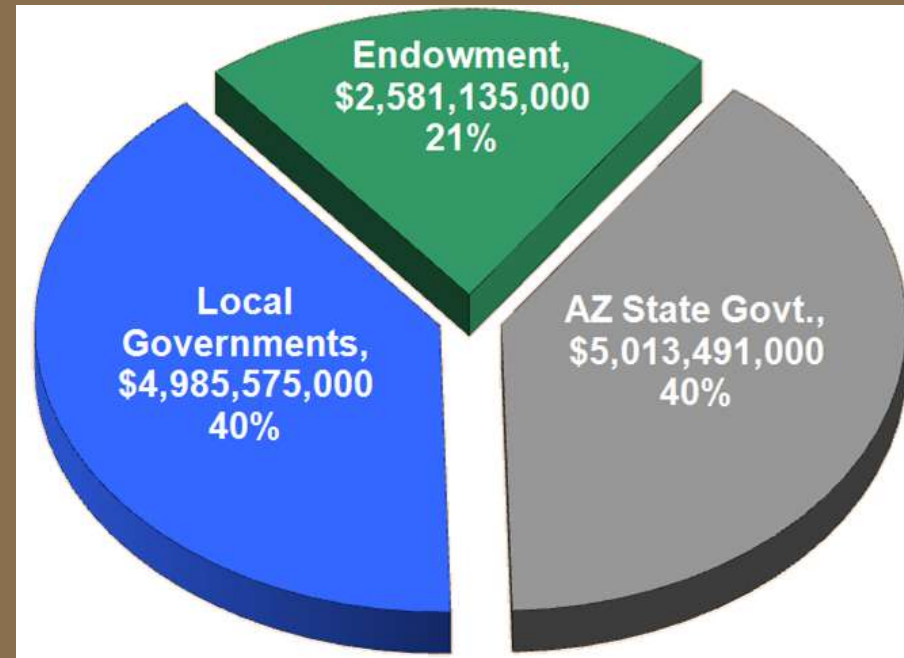


# Assets Under Management (market value)

June 2007



June 2008



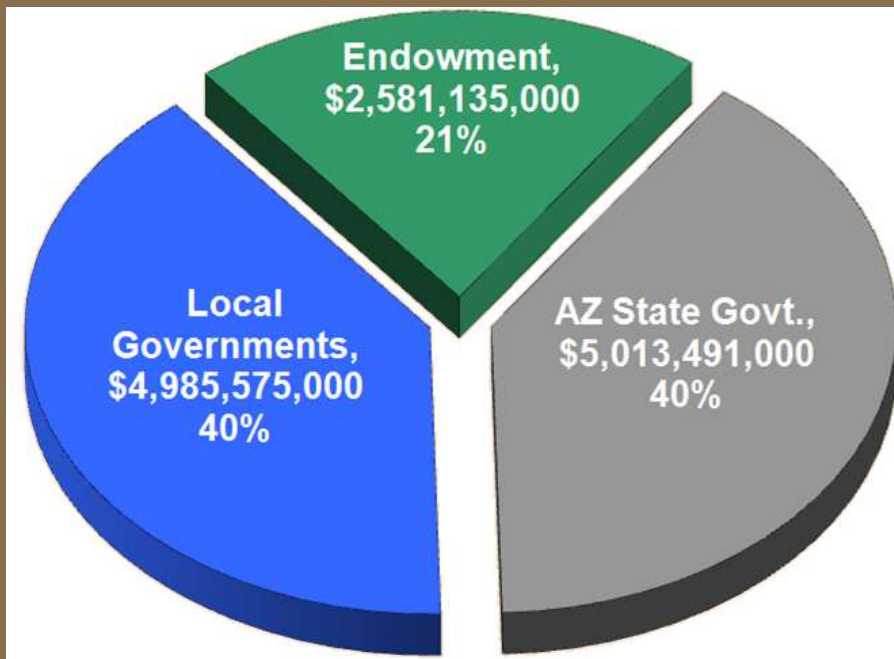
**\$1 Billion in additional Voluntary Investments!**



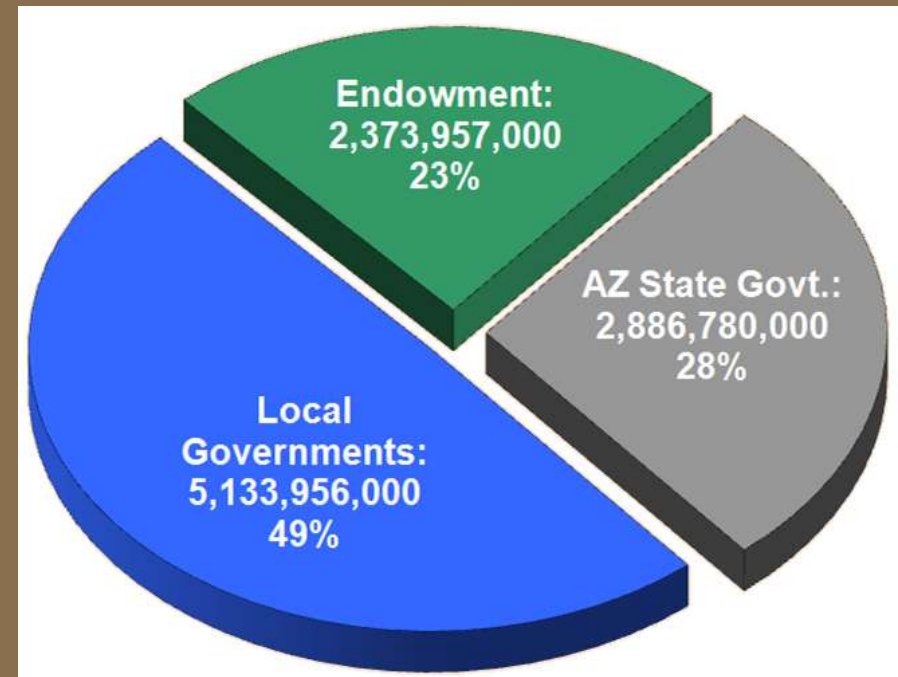


# Assets Under Management (market value)

June 2008



May 2009



State balances drop by over \$2 Billion!

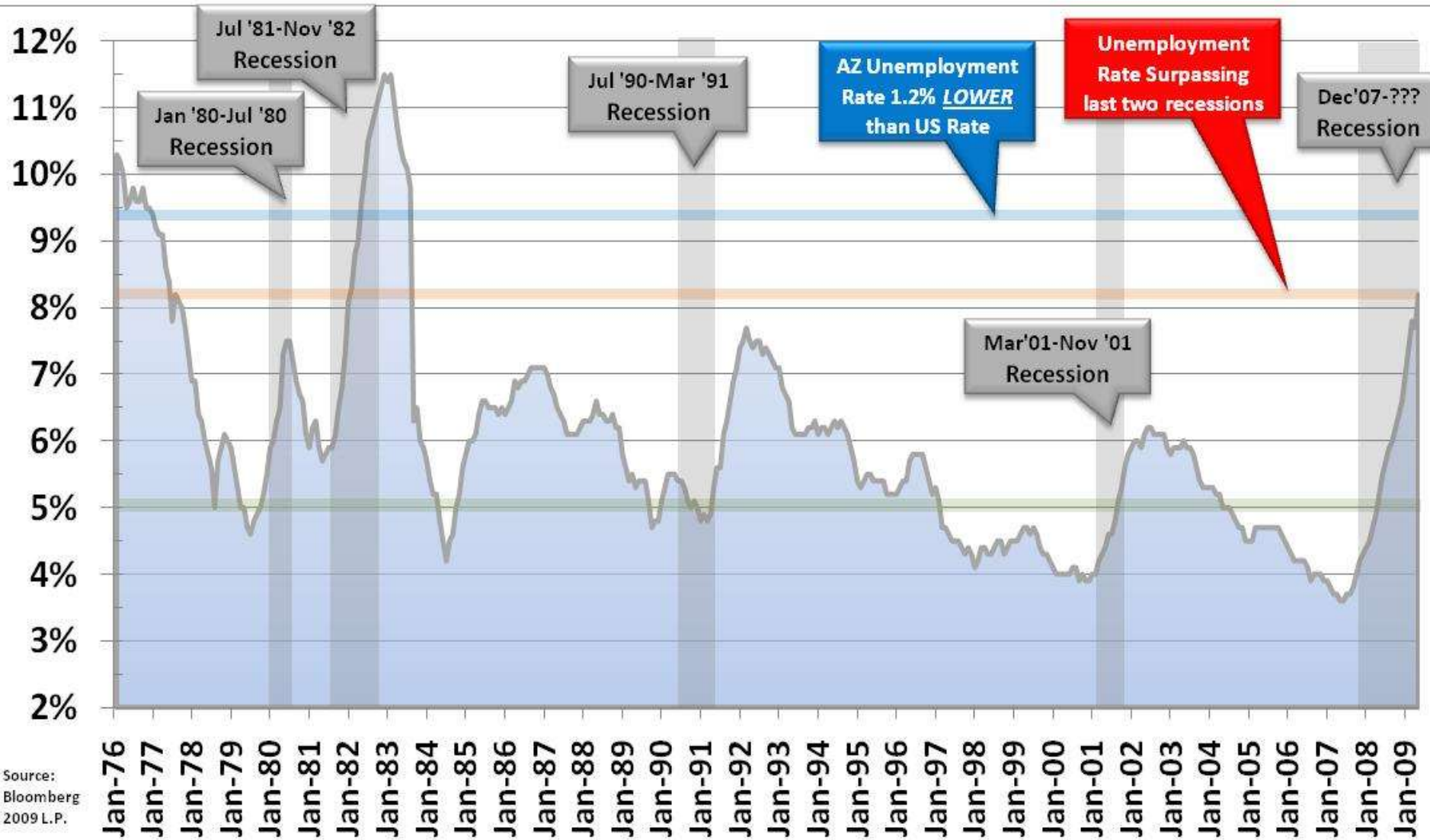


# *Economic Outlook*

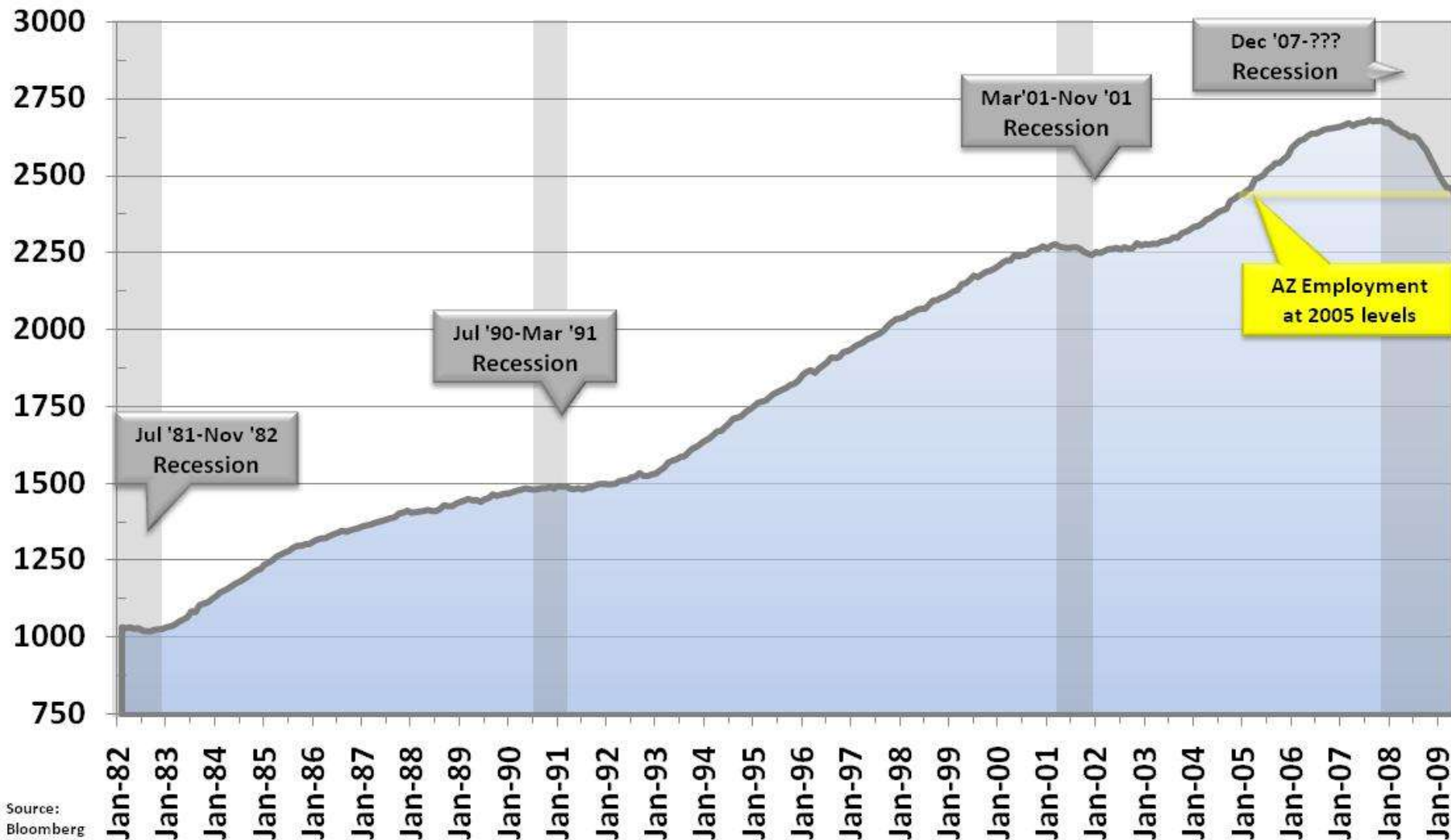




# AZ Unemployment



# AZ Non-Farm Jobs



Source:  
Bloomberg  
2009 L.P.





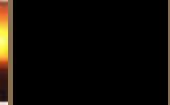
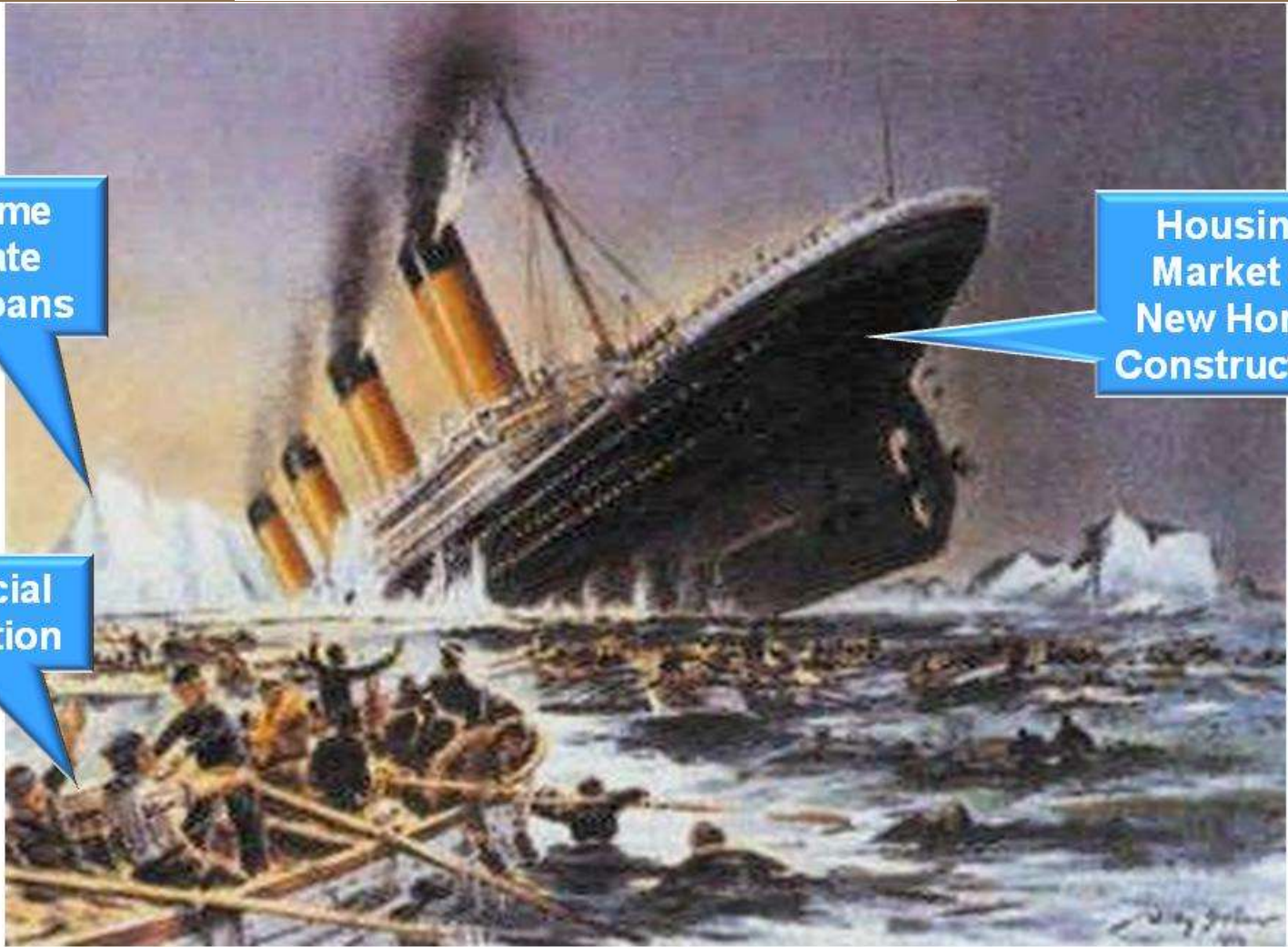
# Housing & Construction

## Previous Outlook

Sub-prime  
High-rate  
NINJA Loans

Housing  
Market &  
New Home  
Construction

Commercial  
Construction





# Housing & Construction

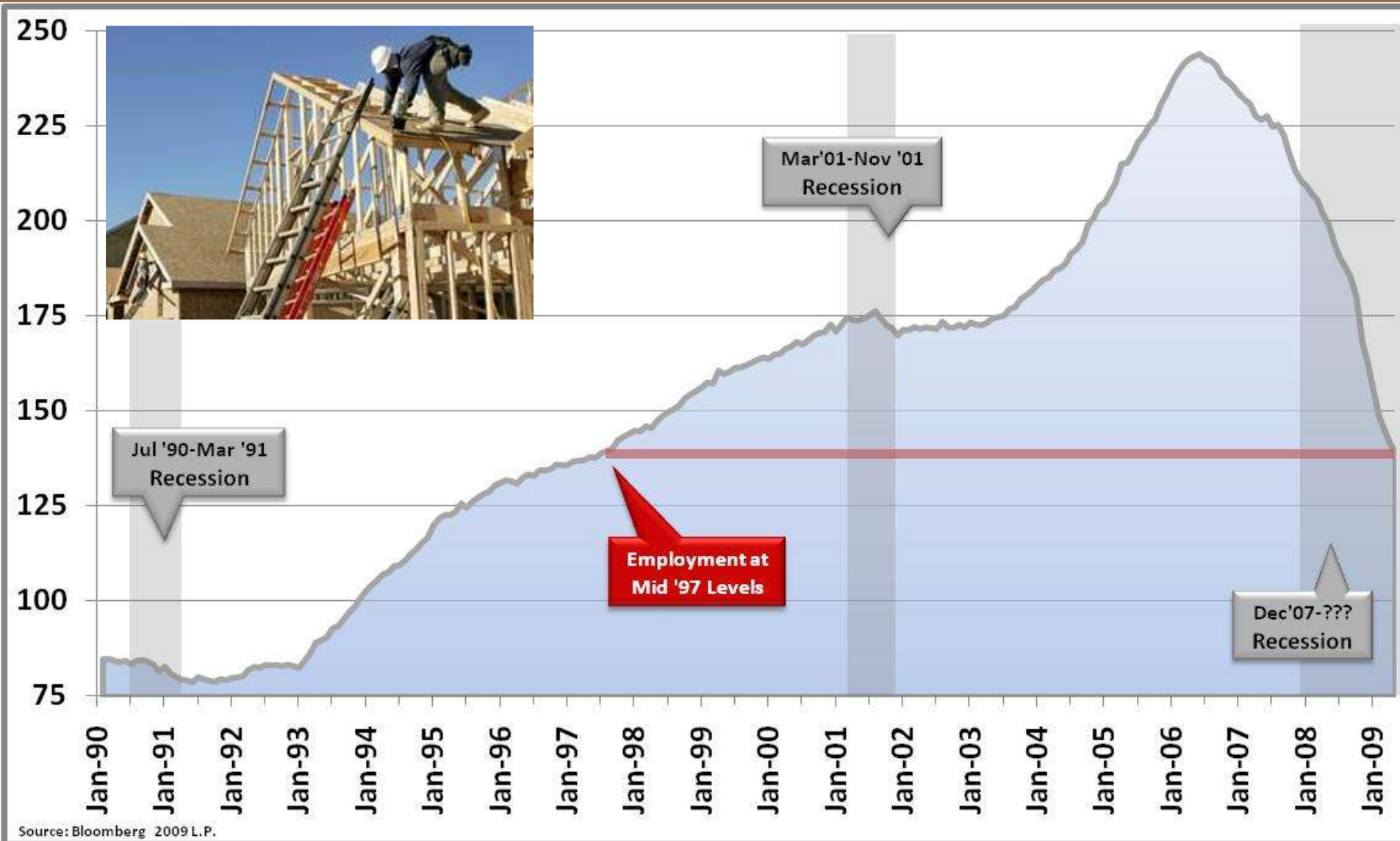
## Current Status



# ***Commercial Property Bubble Burst Last Year***

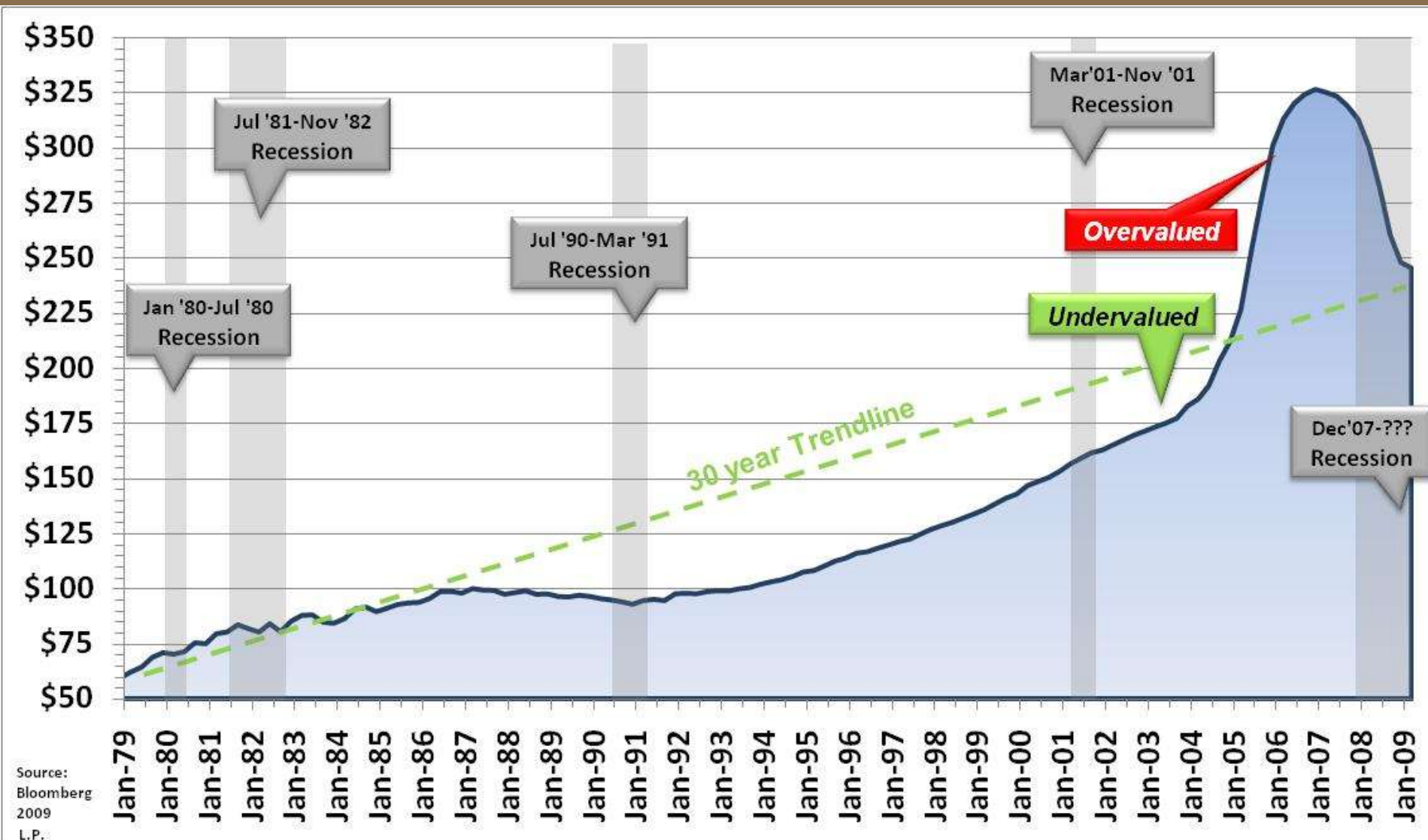


# AZ Construction Employment at 1997 levels!

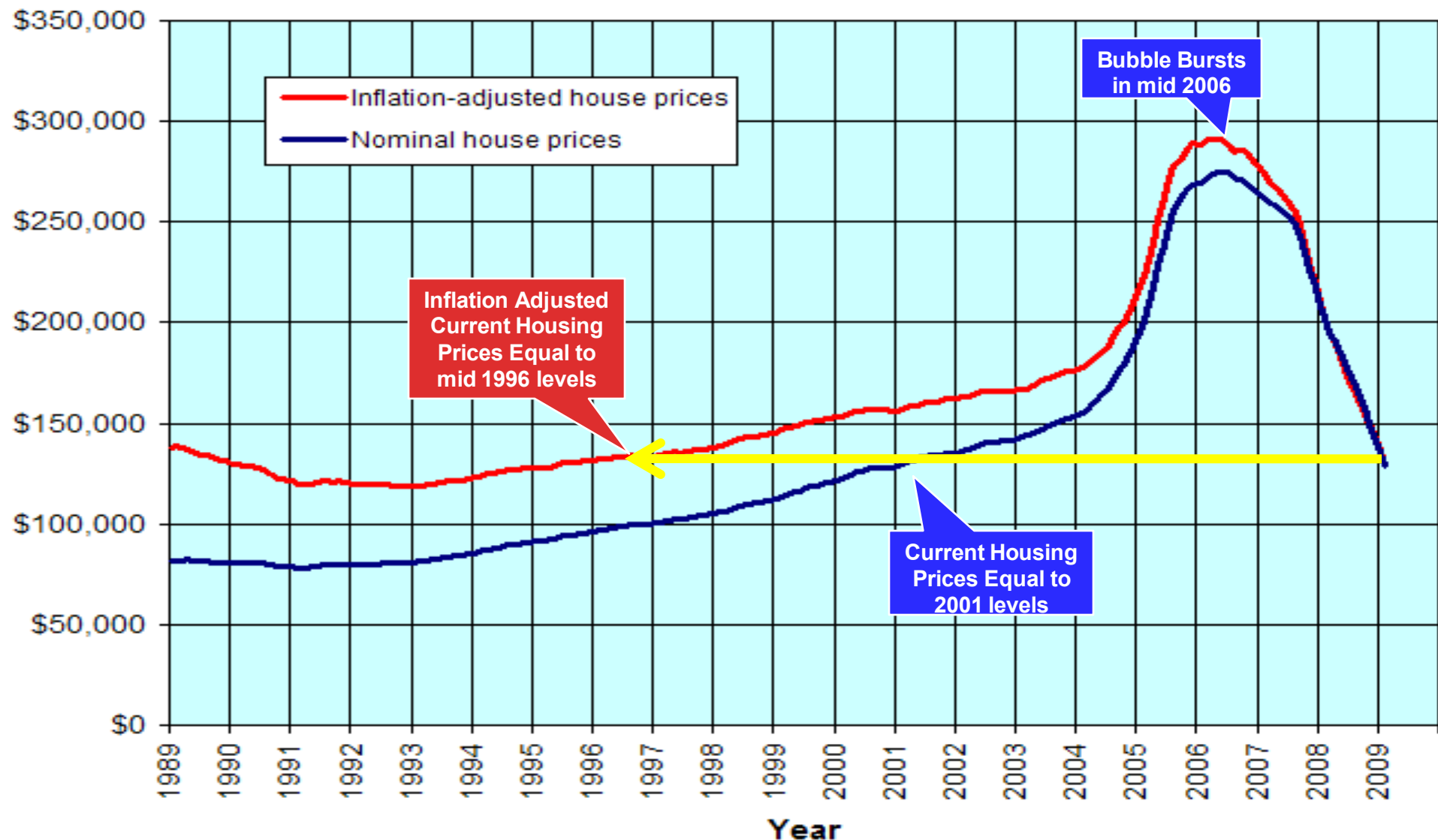




# AZ Conventional Mortgage Price Index for Valley



# Phoenix, Arizona Metropolitan Area House Prices



Inflation Adjusted  
Current Housing  
Prices Equal to  
mid 1996 levels

Bubble Bursts  
in mid 2006

Current Housing  
Prices Equal to  
2001 levels

Year

Latest quarterly, median, existing, single-family home price provided by the National Association of Realtors. Trailing house price index data provided by Standard & Poors. Inflation data provided by the Federal Reserve Bank of Cleveland. The chart on this page estimates the market value of today's median-priced house over time. The trailing nominal prices are derived by taking the recent median price of existing single-family homes, as reported by the National Association of Realtors, and discounting it by the S&P/Case-Shiller Home Price Index. The S&P/Case-Shiller HPI is a "constant quality" index, so even though houses are built larger today than they were many years ago, this graph automatically adjusts for this variation. The trailing inflation-adjusted prices are then derived by adjusting the nominal prices by the *CPI-U Research Series Using Current Methods*. <http://mysite.verizon.net/vzeqrguz/housingbubble/phoenix.html>



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# *Arizona still Over Stocked on Homes, but improving*



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# 13% of US Mortgages Distressed



Source:  
Bloomberg  
2009 L.P.



*So how about some  
good news?*

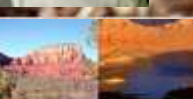


*I just saved a  
bunch of money on  
my car insurance!*



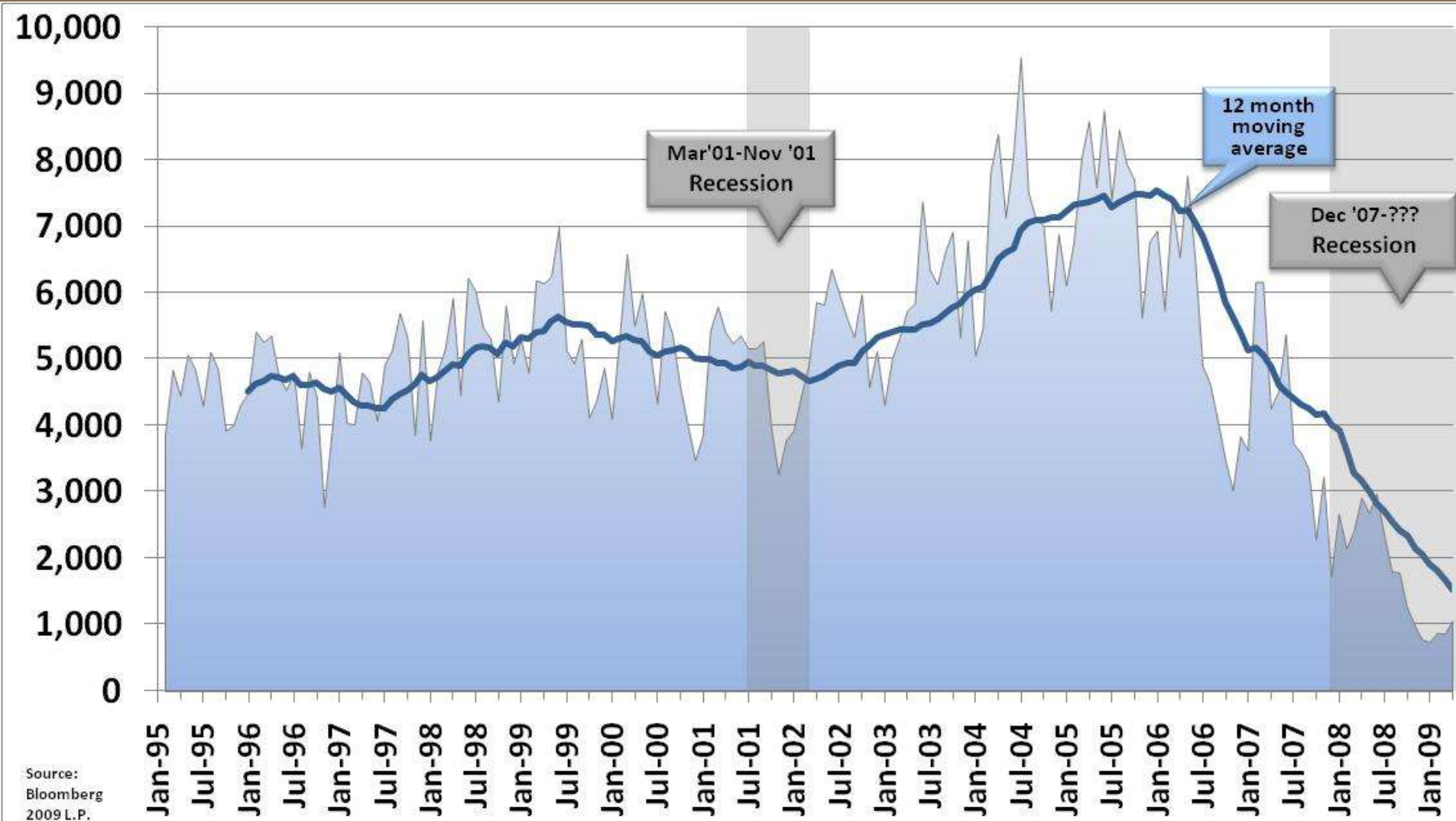


# Signs of spring on the horizon?



# Arizona Housing Permits: Nearing a Bottom?

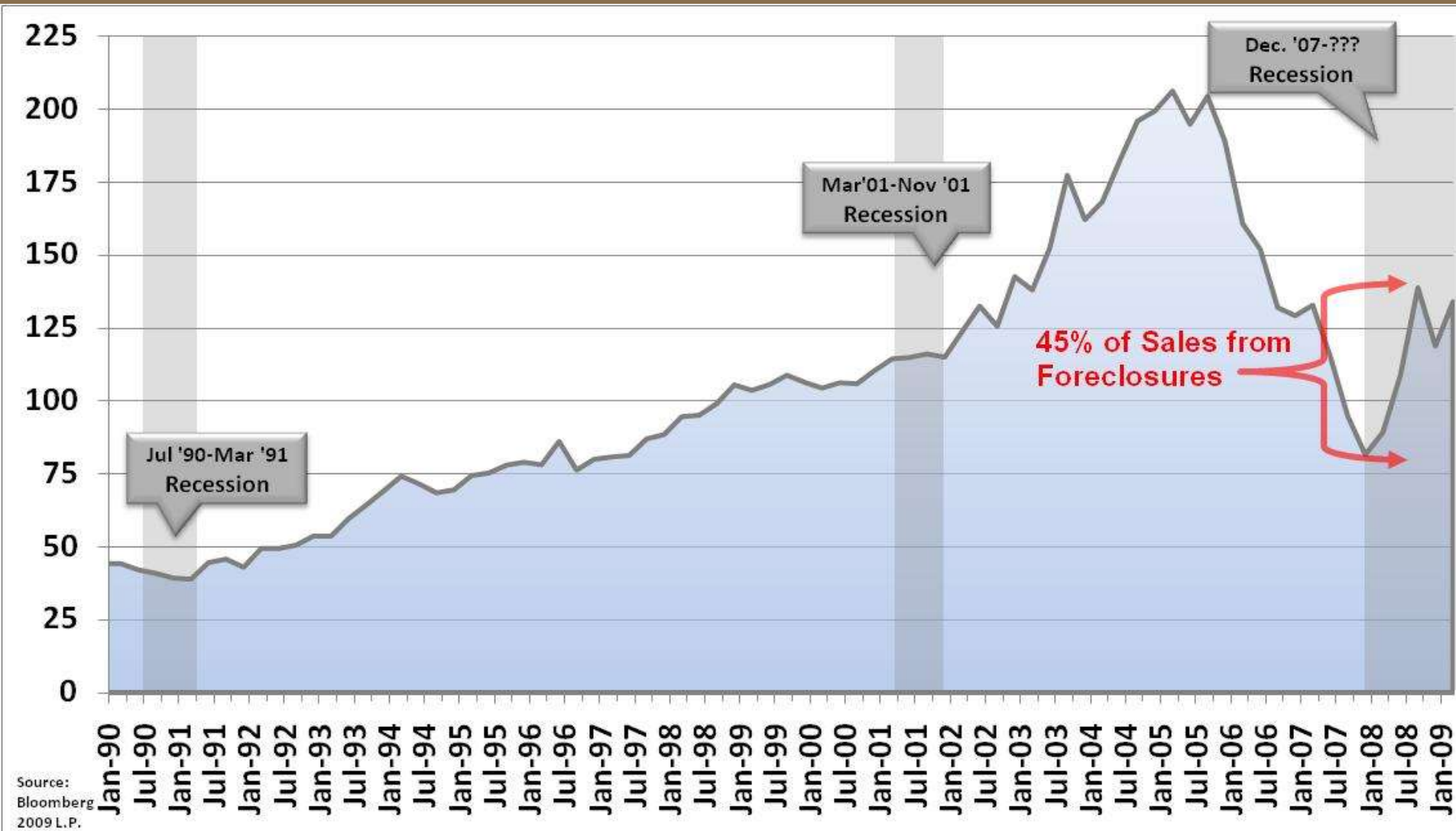
Total Monthly Arizona Residential Building Permits 1995 to Feb. 2009



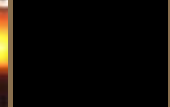
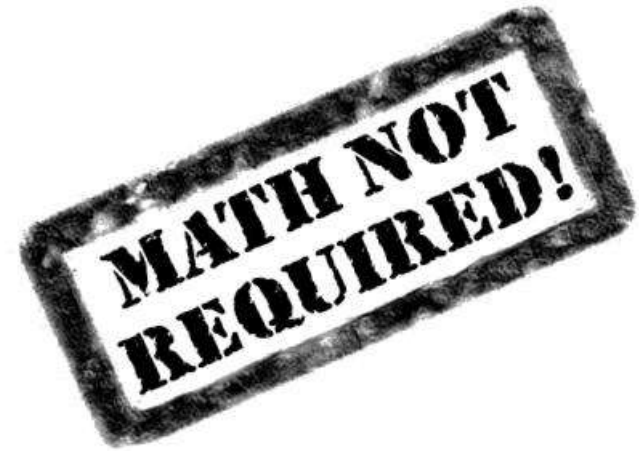


# Arizona Sales of Existing Homes Improved

Quarterly Data starting Jan. 1990



# *Quick and Easy* *Economic Gauge*



# Watch your local Starbucks





*As long as people are still buying*  
*\$4 cups of coffee:*  
*They still have disposable income*



*Mild Recession*



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# *Moderate to Severe Recession*





*People can't buy a \$1.29 cup of coffee:*



*Depression*



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# *Economic Forecast*



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# *The Economic Cycle*

**The  
Bubble  
Bursts**

**The  
Crash  
Phase**

**The  
1<sup>st</sup>  
Turn**

**Hit  
Bottom**

**The  
Recovery  
Begins**



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# The National Economy & Financial Markets

1<sup>st</sup>  
Crash  
Phase

1<sup>st</sup> Turn  
April 2008

End of  
2011

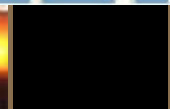
The  
Housing  
Bubble  
Bursts

Zero  
Growth

New Crash  
Phase  
Sept. 2008

End of  
2010

Hit  
Bottom  
4<sup>th</sup> Qtr.  
2009



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# *The Arizona Economy*

The  
Housing  
Bubble  
Bursts

Zero  
Growth

The  
Crash  
Phase

1<sup>st</sup> Turn  
1<sup>st</sup> / 2<sup>nd</sup>  
Qtr. 2009

Hit  
Bottom  
End  
2009

End of  
2010

End of  
2011

End of  
2012



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# Arizona Housing lags National Housing Market

The  
Bubble  
Bursts  
Late '06

The  
Crash  
Phase

1<sup>st</sup> Turn  
Late  
1<sup>st</sup> Qtr  
'09

Hit  
Bottom  
4<sup>th</sup> Qtr.  
2009

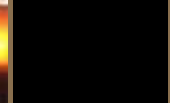
End of  
2010

End of  
2011

End of  
2012

End of  
2013

End of  
2014



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# *Swine Flu going to prolong the US recession?*

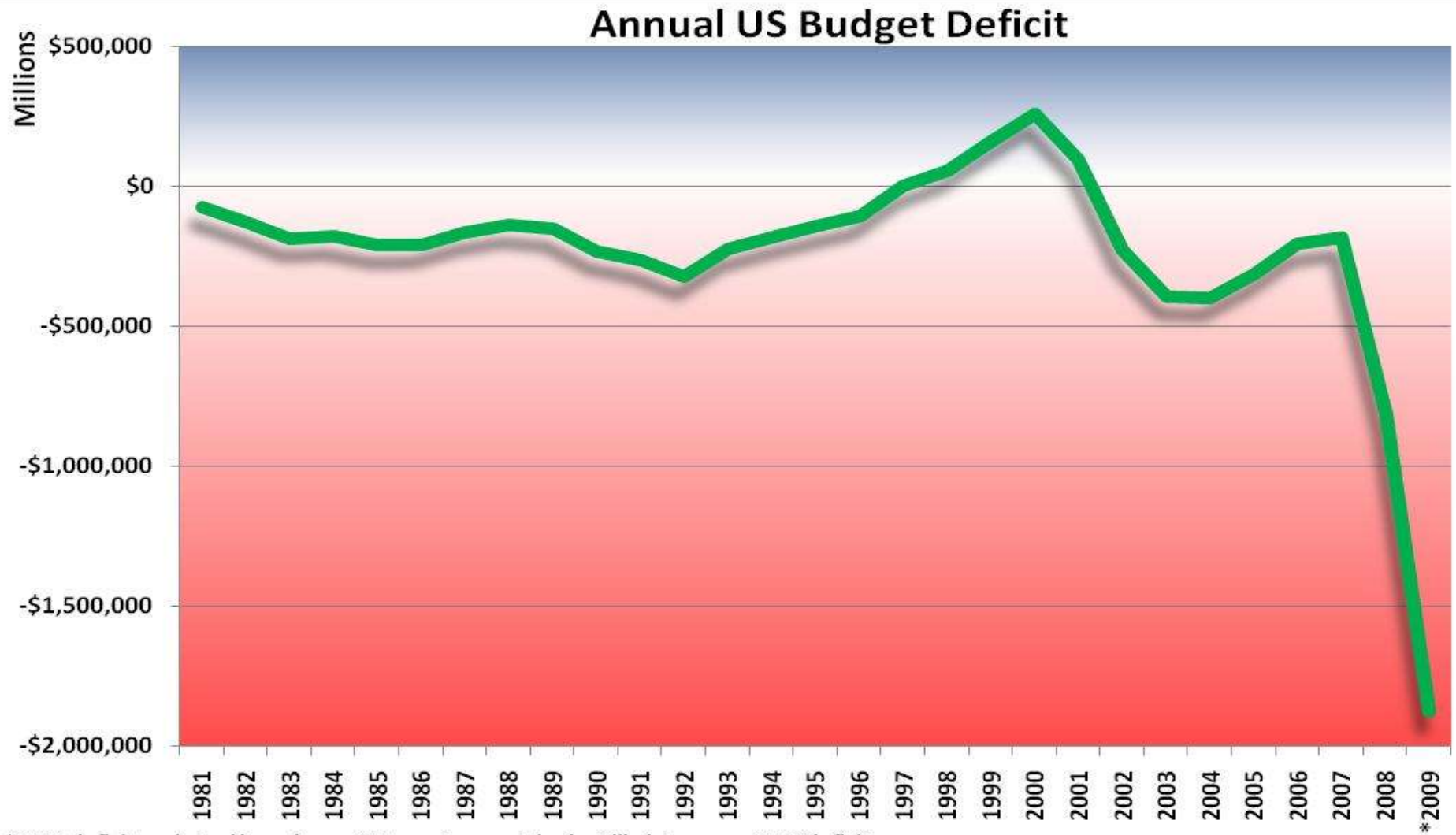


# Is High Spending Going To Impact Inflation?



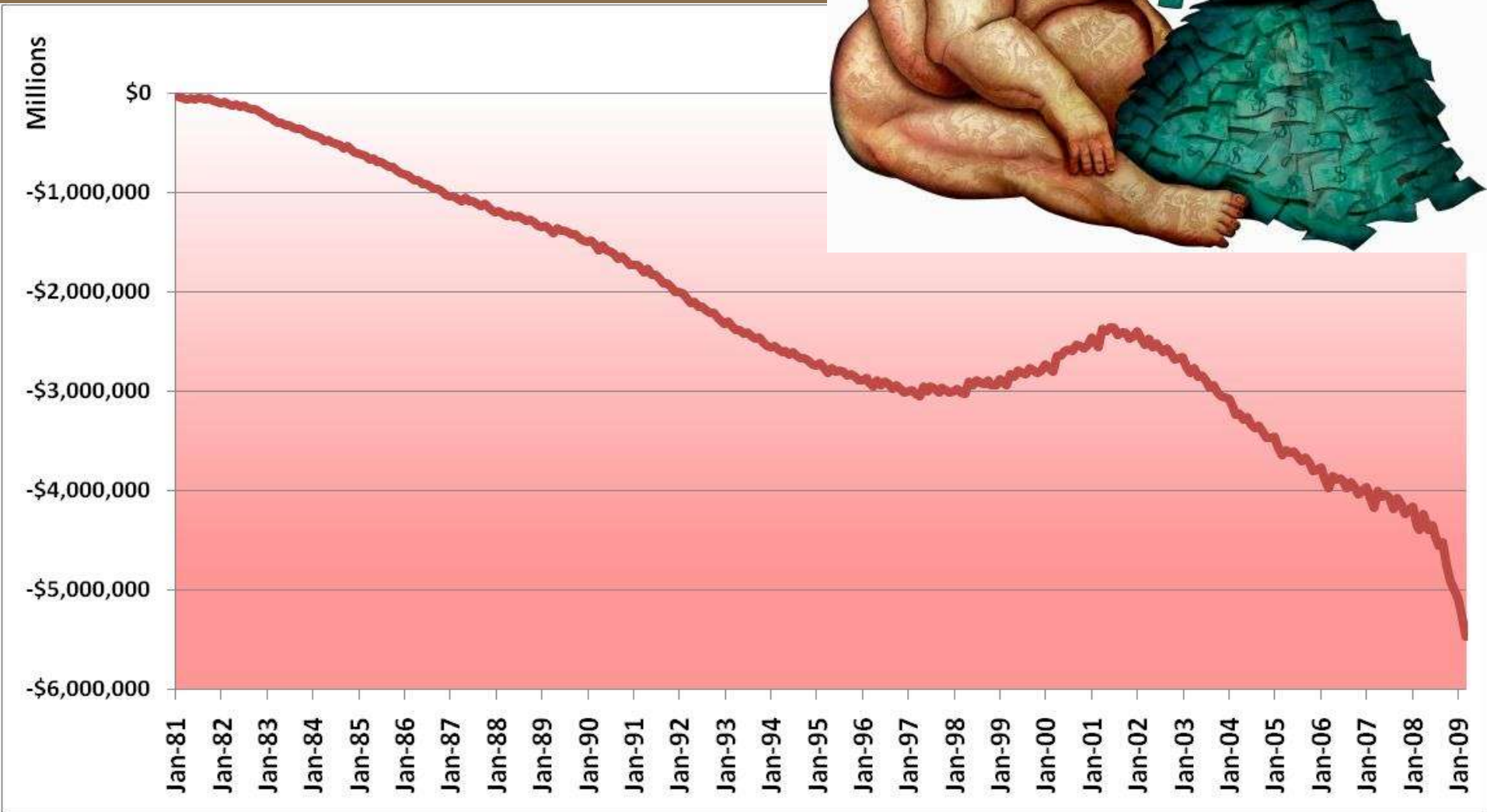


# Annual US Budget Surplus / Deficit

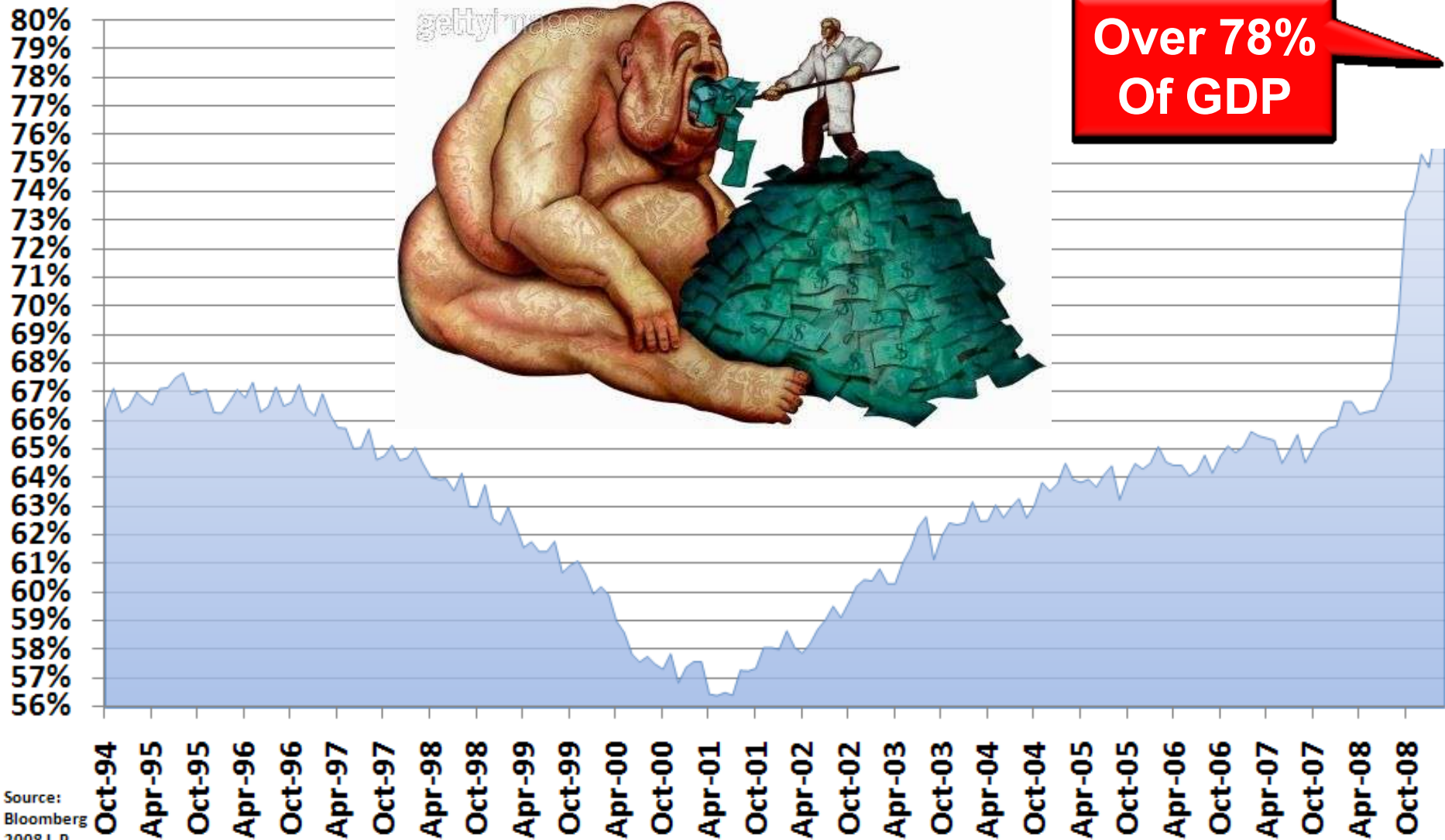




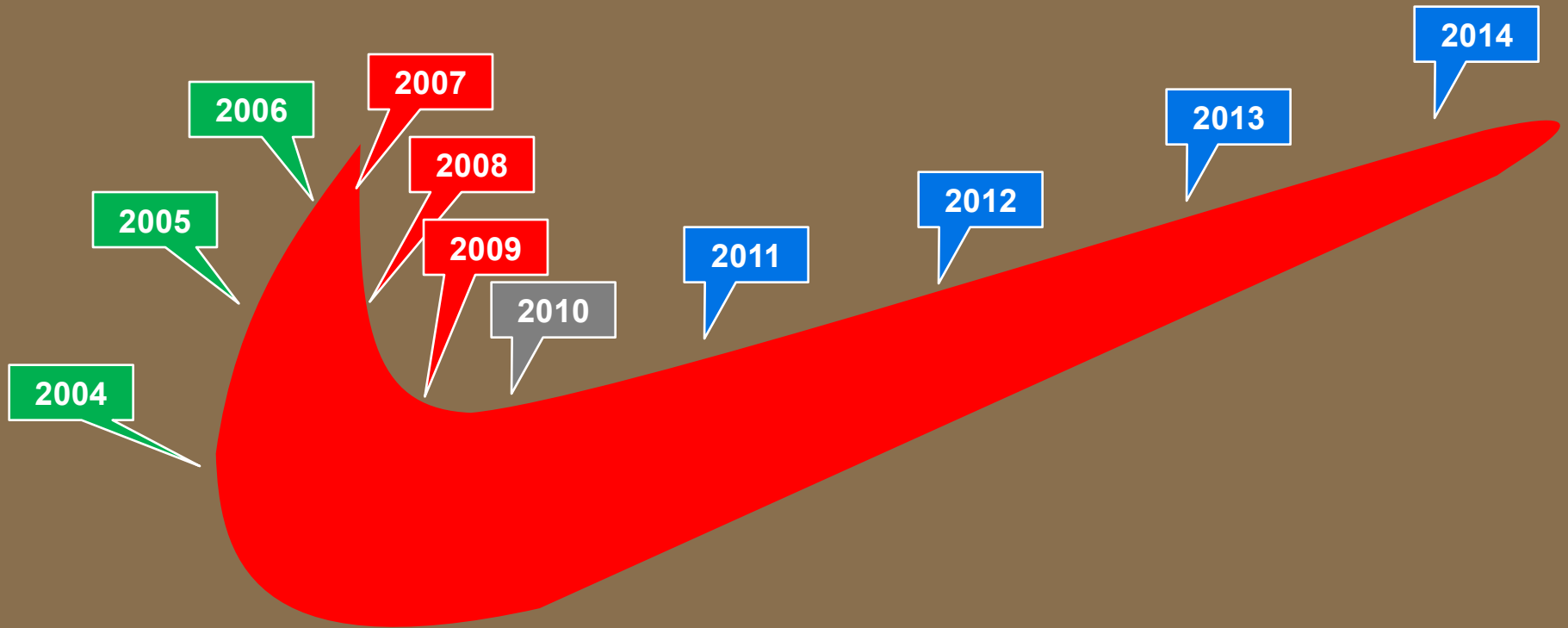
# Cumulative Total US Debt since 1981



# Federal Debt as % of GDP is Soaring

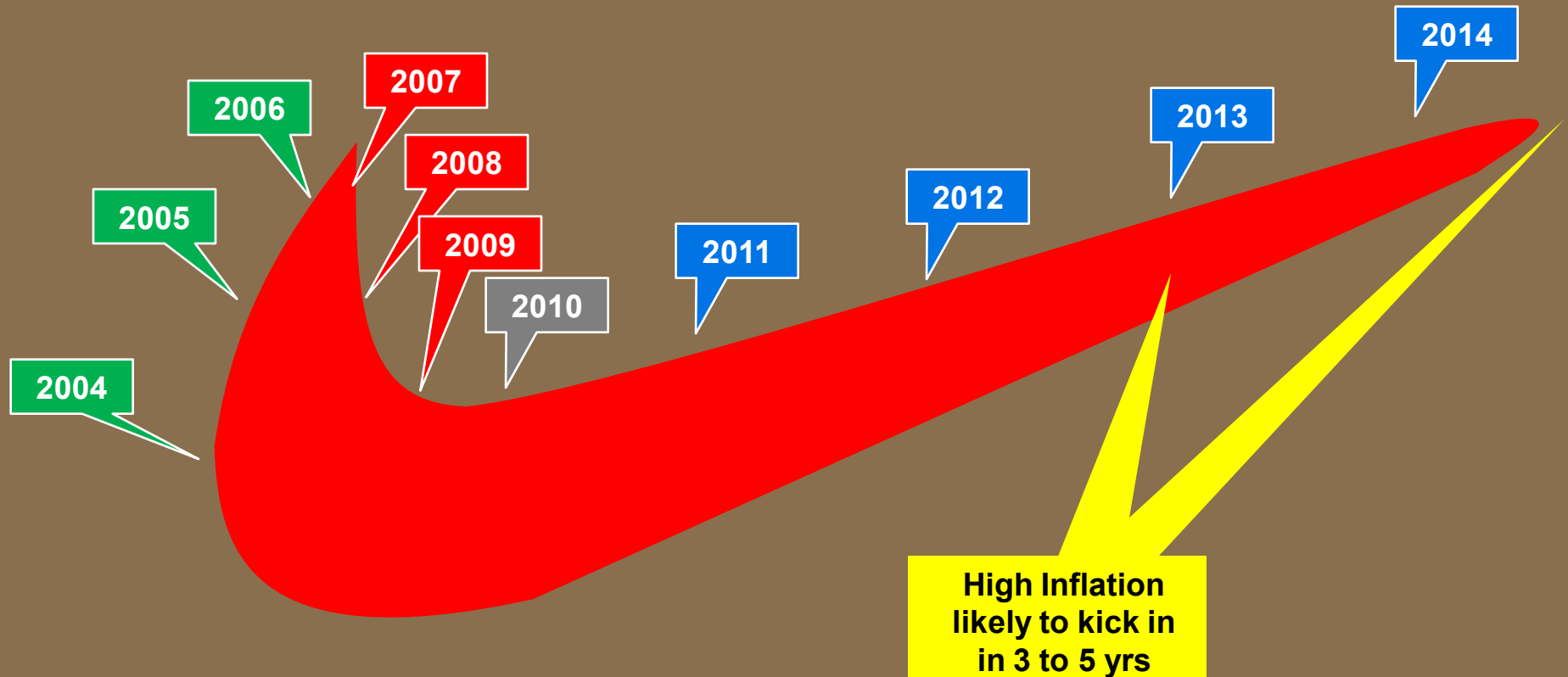


# “Nike” Whoosh Forecast





# “Nike” Whoosh Forecast

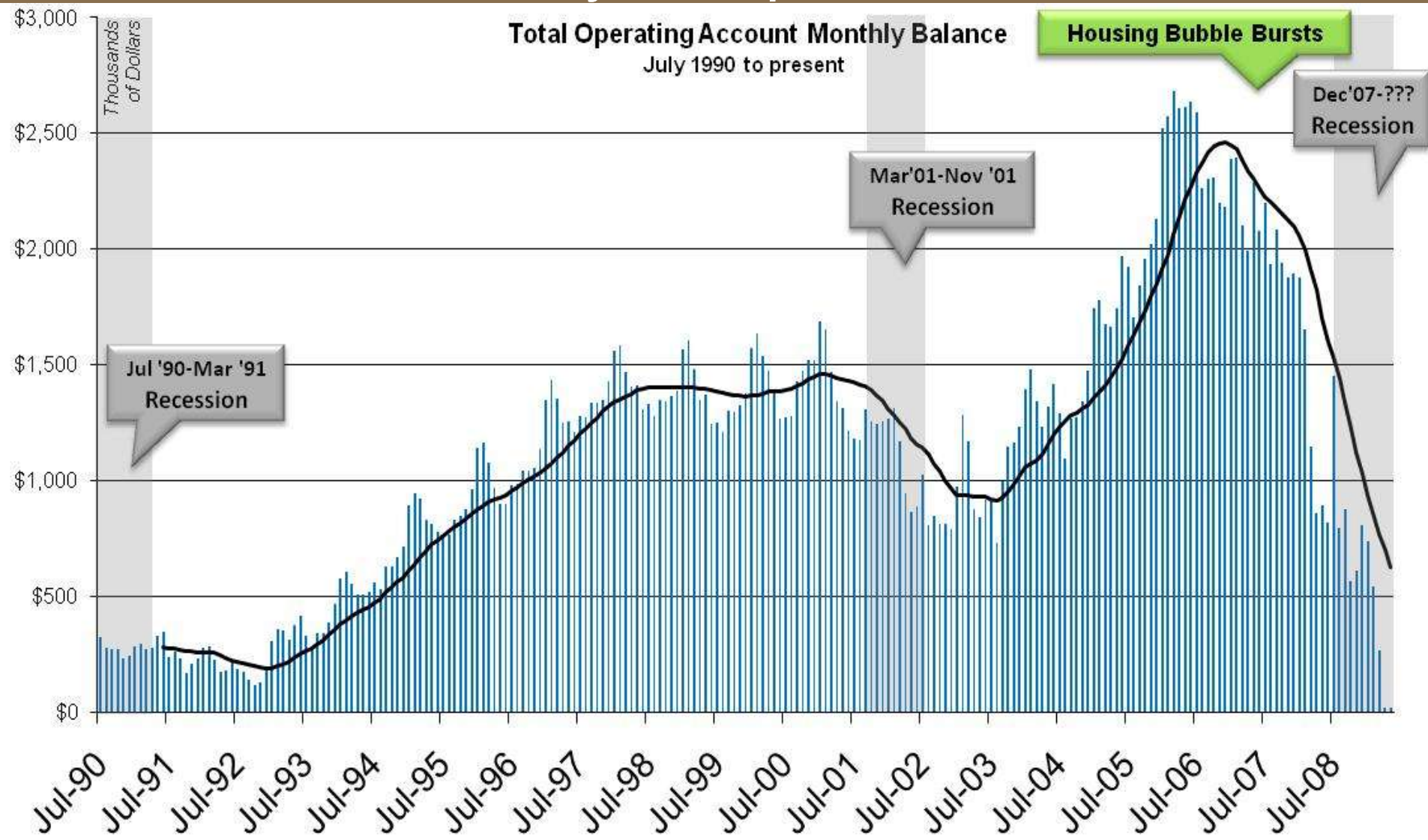


# *State Budget Update*



# State Total Operating Account Average Monthly Balance

## July 1990 to present





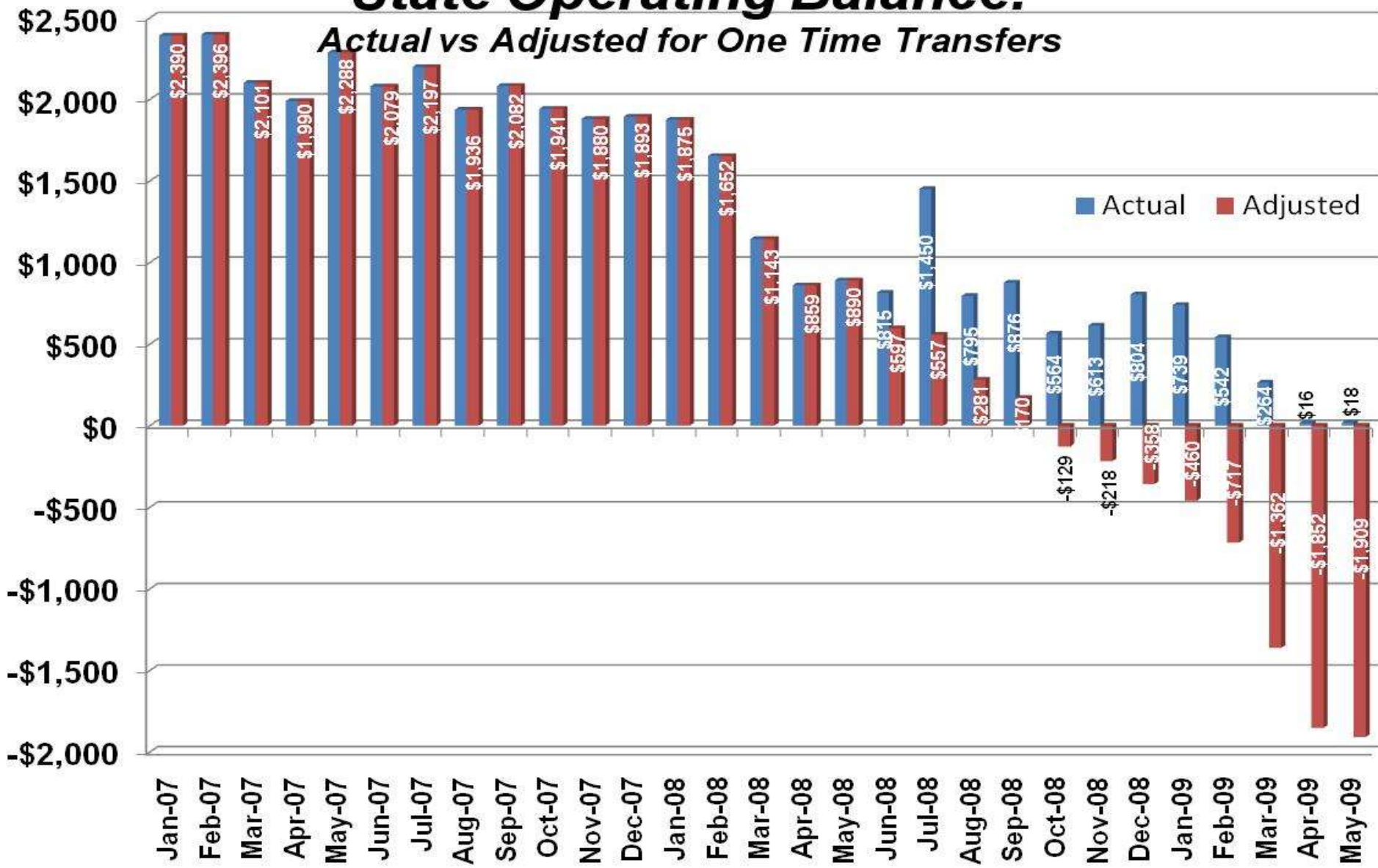
# State of Arizona Operating Cash Balance On A Downward Trend

## Percent Change in Operating Account Balance



# State Operating Balance:

*Actual vs Adjusted for One Time Transfers*



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# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**



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# What went wrong?

## Spending is off the rails '08 Budget

'07 Revenues  
**\$9.7 Billion**

'08 spending  
**\$10.6 billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**



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# What went wrong?

## Spending is off the rails '08 Budget

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**

'08 spending  
**\$10.6 billion**

Revised '08  
**\$10.3 billion**

'08 Revenues  
**\$8.8 Billion**



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# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**

Governor's  
FY09 forecast  
6% growth  
**\$9.98 Billion**  
((\$9.2 permanent))

Treasurer's & Leading  
Economists Forecast  
'09 Revenues  
**\$7.7 Billion**



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# What went wrong?

'07 Revenues  
**\$9.7 Billion**

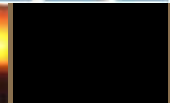
'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**

Real '09 spending  
**\$11.2 billion**  
(including accounting  
gimmicks and debt)

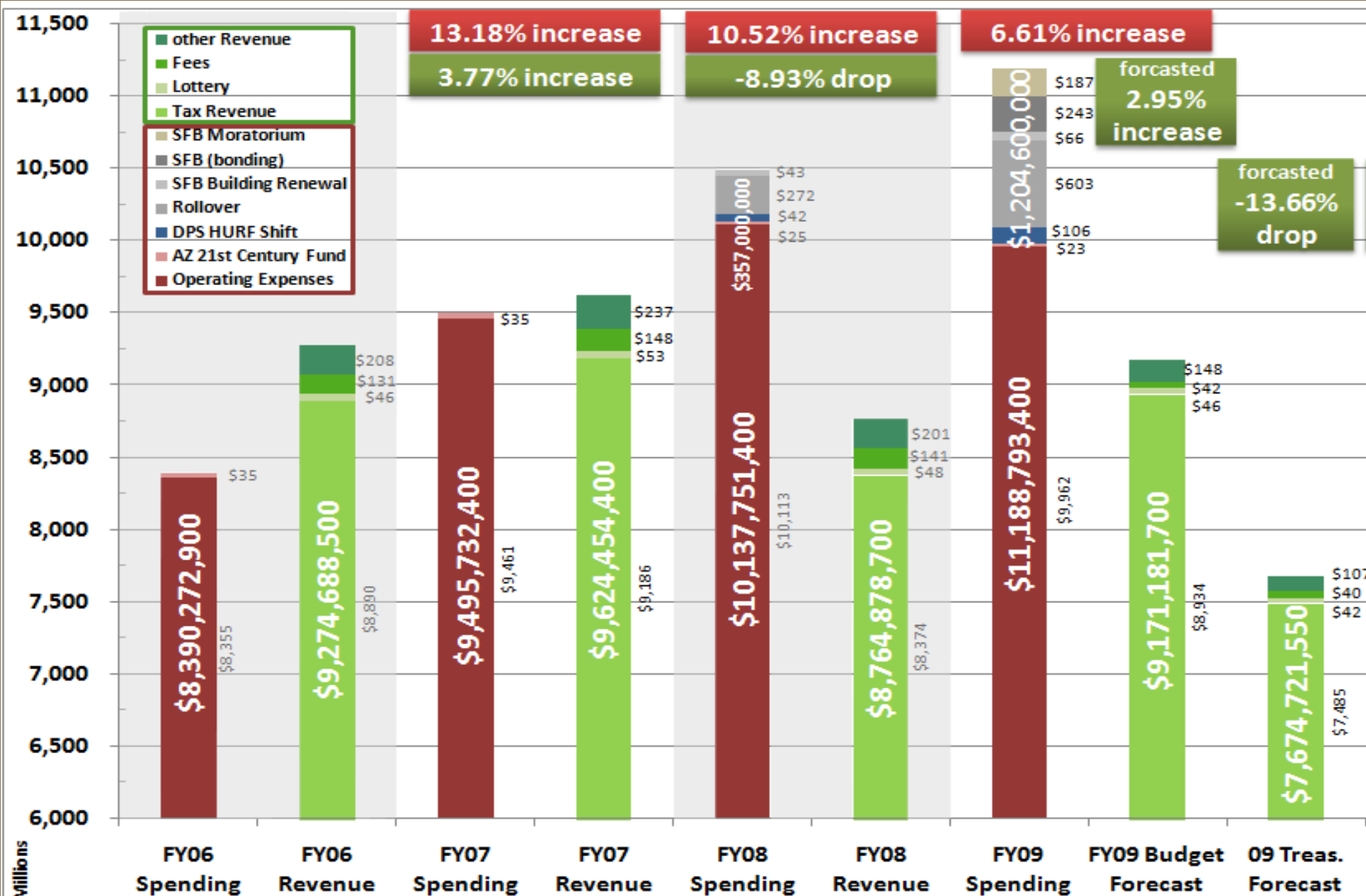
Governor's  
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Treasurer's & Leading  
Economists Forecast  
'09 Revenues  
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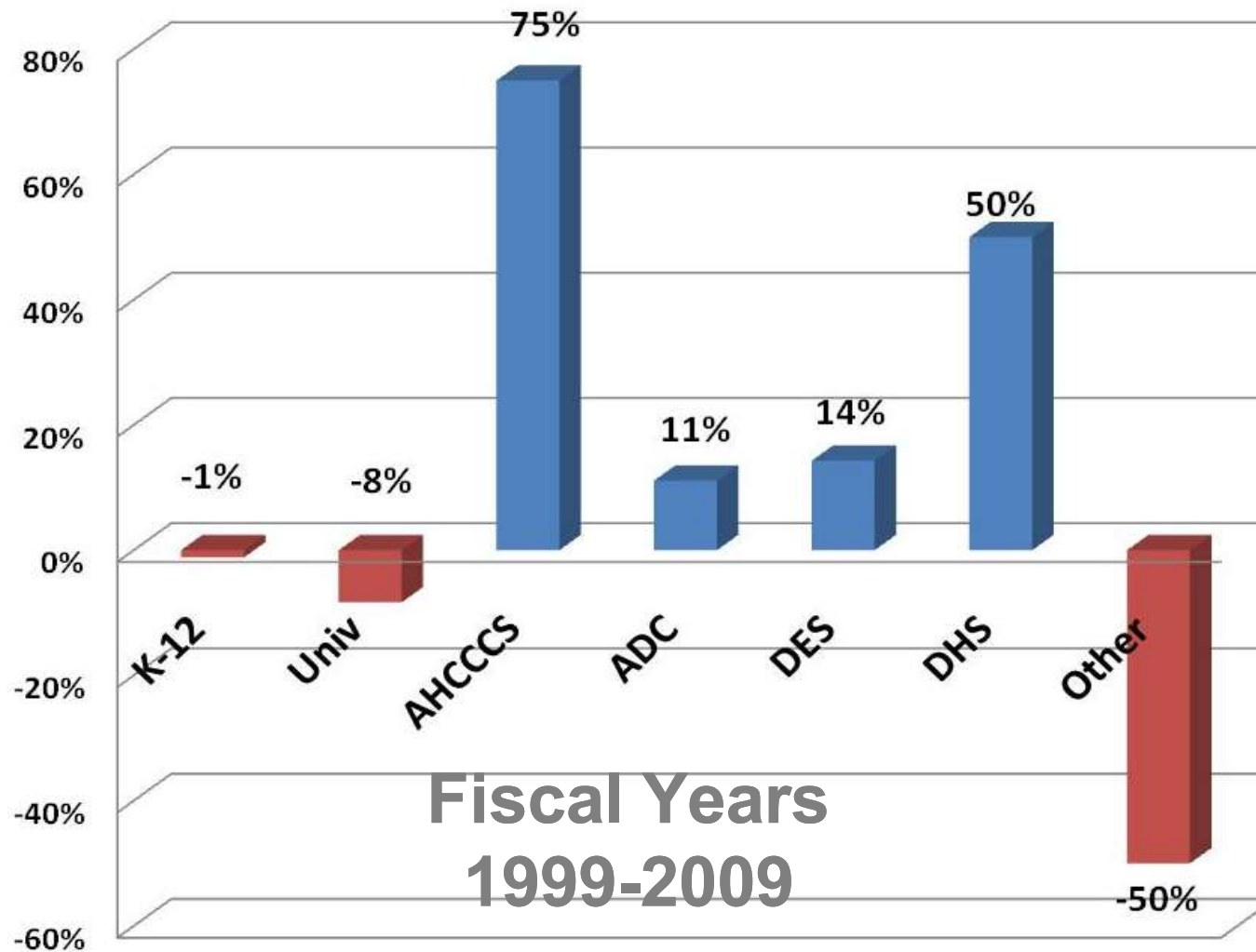
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# Where is the money going?

## % Change in “slice of the GF pie”



What are  
*your*  
priorities?





# Questions?

**THANK YOU**  
***Presentations & Video:***  
***Available online at:***

**[www.AzTreasury.gov](http://www.AzTreasury.gov)**

